Umzimkhulu Local Municipality
Annual Financial Statements
For the year ended 30 June 2019

General Information

Legal form of entity	Local Municipality in terms of section 1 of the local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	The provision of public services to communities in a sustainable manner, to promote social and economic development and to promote a safe and healthy environment
Legislation governing the municipality's operations	Constitution of the Republic of South Africa (Act 108 of 1998) Local Government: Municipality Finance Management Act (Act no.56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Goverment: Municipal Structures Act (Act 117 of 1998) Municipal Property Rates Act (Act no 6 of 2004) Division of Revenue Act (Act 1 of 2007)

Mayoral Committee

Mayor	Cllr M B Mpabanga
Deputy Mayor	Cllr S Nkala
Speaker	Vacant
Chief Whip	Cllr X Tshazi
Members of the Executive Committee	Cllr J Msiya
Members of the Executive Committee	Cllr T Machi
Members of the Executive Committee	Cllr B Lukakayi
Members of the Executive Committee	Cllr B Z Magaqa
Members of the Executive Committee	Vacant
Members of the Executive Committee	Vacant
Accounting Officer	Mr Z.S Sikhosana
Chief Finance Officer (CFO)	Mrs T.J Ngcemu
Grading of local authority	3
Attorneys	Matthew Francis
Bankers	First National Bank
Auditors	Auditor-General of South Africa
Registered office and business address	169 Main Street Umzimkhulu 3297
Postal address	P O Box 53 Umzimkhulu 3297
Telephone number	039 259 5000
Fax number	039 259 0427
Email address	info@umzimkhululm.gov.za

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Approval of the Annual Financial Statements

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial statements and related financial information included in this report. It is my responsibility, as the Accounting Officer to ensure that these financial statements fairly present the state of the affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) as well as relevant interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

I acknowledge that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the me to meet these responsibilities, I have set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The annual annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzimkhulu Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual annual financial statements set out on pages 4 to 72, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2019

Mr Z S Sikhosana
Accounting Officer

Statement of Financial Position as at 30 June 2019

Figures in Rands	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Cash and cash equivalents	2	182,834,446	206,384,337
Receivables from exchange transactions	3	1,883,197	2,031,912
Receivables from non-exchange transactions	4	3,126,776	3,280,072
VAT receivable	5	3,491,482	-
		191,335,901	**211,696,321**
Non-Current Assets			
Investment property	6	31,139,309	31,194,596
Property, plant and equipment	7	435,001,776	413,230,166
Intangible assets	8	844,142	1,105,362
Heritage assets	9	255,000	255,000
		467,240,227	**445,785,124**
Total Assets		**658,576,128**	**657,481,445**
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	20,413,495	14,534,529
Unspent conditional grants and receipts	11	18,229,751	19,250,259
Unspent Agents funds	12	-	22,676,710
VAT Payable	13	-	1,175,775
Short-term Employee benefits obligation		196,077	-
		38,839,323	**57,637,273**
Non-Current Liabilities			
Employee benefits obligation	14	2,136,907	2,207,227
Provisions	15	4,202,863	3,021,121
		6,339,770	**5,228,348**
Total Liabilities		**45,179,093**	**62,865,621**
Net Assets		**613,397,035**	**594,615,824**
Housing Development Fund	16	23,586,445	21,119,440
Accumulated Surplus	17	589,810,590	573,496,384
Total Net Assets		**613,397,035**	**594,615,824**

Statement of Financial Performance

Figures in Rands	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Interest received- trading		395,572	279,630
Interest received - investment	18	14,016,481	13,233,980
Rental of facilities and equipment	19	1,268,036	1,288,801
Service charges	20	2,810,944	2,711,293
Other income	21	803,244	1,304,708
Agency services	22	592,485	571,356
Licences and permits		67,350	-
Total revenue from exchange transactions		**19,954,112**	**19,389,768**
Revenue from non-exchange transactions			
Property rates	23	7,301,201	8,767,163
Transfer revenue			
Government grants and subsidies	24	227,625,422	210,841,337
Public contributions and donations		26,087	4,348
Fines, Penalties and Forfeits		841,705	694,958
Learners and licences		656,584	546,938
Total revenue from non-exchange transactions		**236,450,999**	**220,854,744**
Total revenue	25	**256,405,111**	**240,244,512**
Expenditure			
Employee related costs	26	(90,975,241)	(80,692,074)
Remuneration of councillors	27	(13,997,427)	(14,527,608)
Debt Impairment	28	(3,238,647)	(3,558,153)
Depreciation and amortisation	29	(46,667,957)	(46,689,626)
Finance costs	30	(1,699,458)	(1,107,054)
General expenses	31	(47,477,379)	(39,238,388)
Lease rentals on operating lease		(392,057)	(383,765)
Contracted services	32	(36,218,292)	(30,895,780)
Transfers and subsidies		(238,500)	(411,475)
Total expenditure		**(240,904,958)**	**(217,503,923)**
Surplus for the year from continuing operations		**15,500,153**	**22,740,589**
Gain on provisions		814,053	275,704
Surplus for the year		**16,314,206**	**23,016,293**

Umzimkhulu Local Municipality

(Registration number KZN435)
Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

Figures in Rands	Housing Development Fund	Accumulated Surplus	Total net assets
Opening balance as previously reported	19,215,795	546,914,925	566,130,720
Adjustments			
Prior year adjustments	-	3,901,976	3,901,976
Balance at 01 July 2017 as restated*	**19,215,795**	**550,816,901**	**570,032,696**
Changes in net assets			
Interest on Housing Development Fund	1,903,645	-	1,903,645
Net income (losses) recognised directly in net assets	1,903,645	-	1,903,645
Surplus for the year	-	23,422,981	23,422,981
Total recognised income and expenses for the year	1,903,645	23,422,981	25,326,626
Total changes	1,903,645	23,422,981	25,326,626
Opening balance as previously reported	21,119,440	574,168,060	595,287,500
Adjustments			
Correction of prior period errors	-	(671,676)	(671,676)
Restated* Balance at 01 July 2018 as restated*	**21,119,440**	**573,496,384**	**594,615,824**
Changes in net assets			
Surplus for the year	-	16,314,206	16,314,206
Interest on Housing Development Fund	2,467,005	-	2,467,005
Total changes	2,467,005	16,314,206	18,781,211
Balance at 30 June 2019	**23,586,445**	**589,810,590**	**613,397,035**
Note(s)	16		

Cash Flow Statement

Figures in Rands	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Receipts from ratepayers and other services		15,233,879	15,256,998
Government Grants and subsidies		226,604,914	211,057,664
Interest income		7,829,298	13,233,980
		249,668,091	239,548,642
Payments			
Employee costs		(104,550,080)	(95,832,422)
Suppliers and other payments		(83,080,346)	(70,633,637)
		(187,630,426)	(166,466,059)
Net cash flows from operating activities	34	**62,037,665**	**73,082,583**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(64,336,506)	(42,343,733)
Purchase of other intangible assets	8	(394,840)	(803,745)
Sale of asset		1,000,000	-
Net cash flows from investing activities		**(63,731,346)**	**(43,147,478)**
Cash flows from financing activities			
Electrification Receipts		15,000,000	19,000,000
Housing development and electrification fund proceeds paid		(36,856,210)	(18,048,620)
Net cash flows from financing activities		**(21,856,210)**	**951,380**
Net increase/(decrease) in cash and cash equivalents		**(23,549,891)**	**30,886,485**
Cash and cash equivalents at the beginning of the year		206,384,337	175,497,852
Cash and cash equivalents at the end of the year	2	**182,834,446**	**206,384,337**

Statement of Comparison of Budget and Actual Amounts

Figures in Rands

	Original Approved Budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property rates	9,797,634	(2,075,708)	7,721,926	-		7,721,926	7,301,201		(420,725)	95 %	75 %
Service charges- refuse	2,915,327	(61,715)	2,853,612	-		2,853,612	2,810,944		(42,668)	99 %	96 %
Rental of facilities and equipment	592,146	(48,146)	544,000	-		544,000	1,268,036		724,036	233 %	214 %
Interest earned-external investement	10,496,458	4,447,417	14,943,875	-		14,943,875	14,016,481		(927,394)	94 %	134 %
Interest earned- outstanding debtors	308,000	40,000	348,000	-		348,000	395,572		47,572	114 %	128 %
Fines, penulties, and fofeit	295,000	113,000	408,000	-		408,000	841,705		433,705	206 %	285 %
Licences and permirts	1,127,000	(1,077,000)	50,000	-		50,000	67,350		17,350	135 %	6 %
Agency services	-	1,200,000	1,200,000	-		1,200,000	592,485		(607,515)	49 %	DIV/0 %
Transfers and subsidies	174,931,002	7,000	174,938,002	-		174,938,002	174,923,000		(15,002)	100 %	100 %
Other revenue	1,664,628	807,620	2,472,248	-		2,472,248	2,625,915		153,667	106 %	158 %
Total revenue (excluding capital transfers and contributions)	**202,127,195**	**3,352,468**	**205,479,663**	**-**		**205,479,663**	**204,842,689**		**(636,974)**	**100 %**	**101 %**
Employee related costs	(90,961,335)	(5,004,886)	(95,966,221)	-	-	(95,966,221)	(90,975,241)	-	4,990,980	95 %	100 %
Remuneration of councillors	(15,364,828)	457,202	(14,907,626)	-	-	(14,907,626)	(13,997,427)	-	910,199	94 %	91 %
Debt impairment	(3,800,000)	-	(3,800,000)			(3,800,000)	(3,238,647)	-	561,353	85 %	85 %
Depreciation and asset impairment	(50,637,824)	(1,683,645)	(52,321,469)			(52,321,469)	(46,667,957)	-	5,653,512	89 %	92 %
Other materials	(5,490,000)	790,000	(4,700,000)	-	(103,874)	(4,803,874)	(1,684,150)	-	3,119,724	35 %	31 %
Contracted services	(50,908,700)	2,319,442	(48,589,258)	-	2,520,722	(46,068,536)	(32,203,311)	-	13,865,225	70 %	63 %
Transfers and subsidies	(1,550,000)	5,000,000	3,450,000	-	(195,000)	3,255,000	(238,500)	-	(3,493,500)	(7)%	15 %
Other expenditure	(39,878,900)	(8,622,121)	(48,501,021)	-	(2,221,845)	(50,722,866)	(48,327,610)	-	2,395,256	95 %	121 %

Statement of Comparison of Budget and Actual Amounts

Figures in Rands	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Total expenditure	**(258,591,587)**	**(6,744,008)**	**(265,335,595)**	**-**	**3**	**(265,335,592)**	**(237,332,843)**	**-**	**28,002,749**	**89 %**	**92 %**
Surplus/(Deficit)	**(56,464,392)**	**(3,391,540)**	**(59,855,932)**	**-**		**(59,855,929)**	**(32,490,154)**		**27,365,775**	**54 %**	**58 %**
Transfers and subsidies-capital	50,386,000	500,000	50,886,000	-		50,886,000	33,452,662		(17,433,338)	66 %	66 %
Surplus (Deficit) after capital transfers and contributions	**(6,078,392)**	**(2,891,540)**	**(8,969,932)**	**-**		**(8,969,929)**	**962,508**		**9,932,437**	**(11)%**	**(16)%**
Surplus/(Deficit) for the year	**(6,078,392)**	**(2,891,540)**	**(8,969,932)**	**-**		**(8,969,929)**	**962,508**		**9,932,437**	**(11)%**	**(16)%**

Capital expenditure and funds sources

Total capital expenditure	91,750,007	3,789,102	95,539,109	-		95,539,109	68,770,618		(26,768,491)	72 %	75 %
Funded by:											
National government	42,536,000	-	42,536,000	-		42,536,000	33,098,069		(9,437,931)	78 %	78 %
Provincial government	17,974,006	(9,624,006)	8,350,000	-		8,350,000	354,593		(7,995,407)	4 %	2 %
Internally generated funds	-	44,653,109	44,653,109	-		44,653,109	35,317,956		(9,335,153)	79 %	DIV/0 %
Total Capital funding	**60,510,006**	**35,029,103**	**95,539,109**	**-**		**95,539,109**	**68,770,618**		**(26,768,491)**	**72 %**	**114 %**

Statement of Comparison of Budget and Actual Amounts

Figures in Rands	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	45,825,358	2,846,836	48,672,194	-		48,672,194	62,037,665		13,365,471	127 %	135 %
Net cash from (used) investing	(106,250,006)	10,710,897	(95,539,109)	-		(95,539,109)	(63,731,346)		31,807,763	67 %	60 %
Net cash from (used) financing	-	-	-	-		-	(21,856,210)		(21,856,210)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**(60,424,648)**	**13,557,733**	**(46,866,915)**	**-**		**(46,866,915)**	**(23,549,891)**		**23,317,024**	**50 %**	**39 %**
Cash and cash equivalents at the beginning of the year	159,325,000	47,059,337	206,384,337	-		206,384,337	206,384,337		-	100 %	130 %
Cash and cash equivalents at year end	**98,900,352**	**60,617,070**	**159,517,422**	**-**		**159,517,422**	**182,834,446**		**(23,317,024)**	**115 %**	**185 %**

Summary of Significant Accounting Policies

1. Presentation of Annual Financial Statements

1.1.1 Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1.2 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.1.3 Changes in accounting policies, esimates and errors

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in stimates are disclosed in the notes to the annual financial statements where applicable.

Change in an accounting estimate is recognised prospectively in terms of GRAP 3 by including it in surplus or deficit in:

(a) The period of the change, if the change affects that period only; or

(b) The period of the change and future periods, if the change affects both

Errors are corrected retrospectively in the period in which the error has occured in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality changes an accounting policy only in the following instances:
(a) Is required by a Standard of GRAP; or
(b) Results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Summary of Significant Accounting Policies

1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.5 Critical judgements, estimation and assumptions

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Significant judgements include:

1.5.1 Revenue recognition

Accounting policy 1.18 on Revenue from exchange Transactions and accounting policy 1.19 of Revenue from non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.5.2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 1.12.1 on Financial Assets Classification and on Financial Liabilities Classification describes the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: Financial Instruments.

1.5.3 Impairment of financial assets

Accounting Policy 1.24 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial instruments and used its judgement to select a variety of methods and made assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment value of financial assets recorded during the year is appropriate.

1.5.4 Useful lives of property, plant and equipment, intangible assets and investment property

As described in Accounting Policies 1.7, 1.8 and 1.9 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the underlying assets. The estimated useful lives of PPE, investment property and intangible assets are assessed annually and this is dependent on the condition of the assets. The residual values are estimated to be zero as the municipality will be utilising these assets of their entire economic life.

Summary of Significant Accounting Policies

. Critical judgements, estimation and assumptions (continued)

1.5.5 Budget information

The municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar. General purpose financial reporting by municipality provides information on whether resources were obtained and used in accordance with the legally adopted budget. The approved budget is prepared on accrual basis and presented by economic classification linked to performance outcome objectives.
The approved budget covers the fiscal period from 01/07/2018 to 30/06/2019.
The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to, and forms part of these annual financial statements.

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained between the Statement of comparison of Budget and Actuals and the notes to the annual financial statements.

1.5.6 Impairment of property, plant and equipment and intangible assets

Accounting Policy 1.8.3 on PPE - Impairment of assets and Accounting Policy 1.9.3 on Intangible assets- Amortisation and impairment. Subsequent measurement describes the conditions under which non- financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing and intangible assets impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [Heavy rains, storms, etc].

1.5.7 Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

1.5.8 Post Retirement Benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

1.5.9 Principal versus agent relationship

Judgement has been used in assessing and categorising the nature of the respective and independent arrangements between the Municipality and the Human Settlement Department and Eskom as done in conjunction with and partly through the National Department of Energy.

Summary of Significant Accounting Policies

1.6 Standards, amendments to standards and interpretations issued

1.6.1 Standards and interpretations approved and effective:

GRAP 109 Accounting by Principals and Agents

An entity is an agent when in relation to transactions with third parties all three of the following criteria are present:
That the entity concerned does not have the power to determine the significant terms and conditions of the transaction;
That it does not have the ability to use all or substantially all of the resources resulting from the transactions for its own benefit; and
That it is not exposed to variability in the results of the transaction.
An exception will apply will apply where an entity has been granted specific powers in terms of legislation to direct terms and conditions of particular transactions, in such a situation it shall not consider the 'not having the power to determine significant terms and conditions of the transaction' criteria to conclude that it is an agent. In such situations, the entity shall apply its own judgement in determining whether such powers exist and whether they are relevant in assessing an entity as an agent.

The Municipality has an agent-principal relationship with two different parties namely the Human Settlement Department and Eskom, the latter administered in conjunction with and partly through the National Department of Energy.

Housing Development Fund (**Municipal Housing Operating Account**)
In respect of Human Settlement Function, the Municipality has been tasked with the responsibility of delivering housing projects for and on behalf the Human Settlement Department done in terms of the Housing Act, Act No 107 of 1997 whereby a Human Settlement Fund was historically advanced to the Municipality for the sole purpose of developing and selling housing schemes. This fund has two components, the capital fund and the operational fund. The capital fund represents the capital sum that came into being on 01 April 1998 (as a result of the extinguishment of the previous National and Provincial Government Loans made available to the Municipality for the purpose of financing housing selling schemes in terms of the then incoming Housing Act) while the operational fund represents a combination of interested earned on the capital fund that has been transferred to the operational fund under the express authority of the Human Settlement Department and interest since earned on the operational fund itself to-date. The two funds are managed through distinct bank accounts. The development and selling of housing schemes, is done through the operational fund; whereby each housing scheme's business plan is specifically approved and signed off by the Human Settlement Department from start to completion. In terms of the standing directive of the Housing Act, Section 14 (4) (d) (iv) the Municipality furnishes on a monthly basis monthly reports regarding the sale of immovable property by the Municipality in terms of this paragraph including the basis for determining the selling prices.

Intitial recognition
The Municipal Housing Operating Account is the interest of the Capital and is recognised as a reserve in municipal books. The municipality recognises a liability when it receives the funds from the principal, and when paying the service providers the liability is reduced. This standard has been early adopted by the municipality.

Subsequent measurement
The unspent fund on Human Settlement Development Fund is recorded as an unspent in the liabilities.

ESKOM as the Princial
With respect to the Eskom principal / agency relationship the Municipality receives a conditional electrification grant from the National Department of Energy, the purpose of which is to address the electrification backlog of permanently occupied residential dwellings entailing the installation and rehabilitation of the electricity bulk infrastructure. The foregoing 'works' on infrastructure are done on behalf of and for the benefit of Eskom. In terms of the existing memorandum of understanding, Eskom approves the design and the construction / rehabilitation of each bulk infrastructure project embarked upon; with a final approval sign-off on project completion prior to the permanent transfer of the project on completion. There were no changes to the foregoing significant terms and conditions of the arrangement during the reporting period.

The foregoing arrangements have been accounted for in terms of the standard on accounting by principals and agents, wherein the Municipality is an agent and two parties referred to above are unrelated and independent principals. Practically, these arrangements have each been accounted for in terms of fund accounting; whereby the funds received are recognised as an effective liability in terms of fund accounting; and upon utilisation of the fund for the intended purposes in the manner described above, the respective fund is reduced by the total approved and compliant expenditure. Accordingly, at any reporting date, each respective fund represents the unexpended portion of the respective designated funds received from the respective principals inclusive of interest received, where expressly stipulated. Each of the funds are duly backed by the matching investment bank accounts at the reporting date. The nature and the identity of conditional capital grant received from the National Department of Energy, has been overridden by the principles of the principal / agent relationship amongst the parties involved and thus accounted for in terms of fund accounting.

Summary of Significant Accounting Policies

. Standards, amendments to standards and interpretations issued (continued)
There were resources that were duly recognised in the Municipality's financial statements yet held on the principal's behalf. The only risks transferred from the respective principals to the Municipality are 'custody and potential workmanship error' risk on the development and selling of housing schemes as well respective construction and rehabilitation activities vis-à-vis the bulk electricity infrastructure during the construction and rehabilitation phase.

1.6.2 Standards and interpretations issued, but not yet effective
The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 April 2016 or later periods:

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

1.6.2 Standards and interpretations approved not yet effective
GRAP 20 Related Party Disclosures
The objective of this Standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.
.
Related party transactions and outstanding balances within an economic entity are disclosed in an entity's financial statements. Intra-group related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the economic entity.

GRAP 32 Service Concession Arrangements: Grantor
GRAP 34 Separate Financial Statements
GRAP 35 Consolidated Financial Statements
GRAP 36 Investments in Associates and Joint Ventures
GRAP 37 Joint Arrangements
GRAP 38 Disclosure of Interests in Other Entities
GRAP 110 Living and Non-living Resources

1.7 Investment property

1.7.1 Initial recognition
Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

1.7.2 Subsequent measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	30-50 years

Summary of Significant Accounting Policies

. Investment property (continued)

1.7.3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.8 Property, plant and equipment

1.8.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to or replace part thereof . If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Summary of Significant Accounting Policies

. Property, plant and equipment (continued)

1.8.2 Subsequent measurement

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.8.3 Depreciation and impairment

Property, plant and equipment is depreciated on the straight line basis over their expected useful lives of assets.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	30-50 years
Infrastructure	
• Dams	30 years
• Pedestrian malls	30 years
• Roads	10-30 years
Community	
• Buildings	30-50 years
• Recreational facilities	20-30 years
• Security	5-10 years
Other fixed assets	
• Other Vehicles	5-15 years
• Office equipment	3-12 years
• Furniture and fittings	7-12
• Specialist Vehicles	10-20 years
• Landfill site	15 years

The useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

1.8.4 Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Summary of Significant Accounting Policies

. Property, plant and equipment (continued)

1.8.5 Work in progress

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.8.6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

1.8.7 Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.9 Intangible assets

1.9.1 Initial recognition

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

1.9.2 Subsequent measurement

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

1.9.3 Amortisation and impairment

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3-5 years

1.9.4 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Summary of Significant Accounting Policies

1.10 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.11 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.11.1 Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.11.2 Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Summary of Significant Accounting Policies

. Heritage assets (continued)

1.11.3 Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Heritage assets are not depreciated.

1.11.4 Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.11.5 Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.11.6 Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

Summary of Significant Accounting Policies

. Financial instruments (continued)

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

Summary of Significant Accounting Policies

. Financial instruments (continued)

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.12.1 Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalent	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exhange transactions	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

1.12.2 Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Summary of Significant Accounting Policies

. Financial instruments (continued)

1.12.3 Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.12.4 Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.12.5 Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Summary of Significant Accounting Policies

. Financial instruments (continued)

1.12.6 Derecognition

1.12.6.1 Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

1.12.6.2 Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Summary of Significant Accounting Policies

. Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.12.7 Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance, and also disclosed in the notes to the financial statements.

Where it is not possible to recover the revenue recognised from fruitless and wasteful, the receivable is written-off following proper write off processes in terms of the MFMA.

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Summary of Significant Accounting Policies

1.16 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

1.17 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Summary of Significant Accounting Policies

. Leases (continued)

1.17.1 Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.17.2 Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.18 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another municipality (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services. Such transactions are accounted for in accordance with the standard on principals and agents

1.18.1 Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, trade discounts and volume rebates.

1.18.2 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Summary of Significant Accounting Policies

. Revenue from exchange transactions (continued)

1.18.3 Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.18.4 Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Summary of Significant Accounting Policies

. Revenue from non-exchange transactions (continued)

1.19.1 Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.19.2 Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.19.3 Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

1.19.4 Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

1.19.5 Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Summary of Significant Accounting Policies

. Revenue from non-exchange transactions (continued)

1.19.6 Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

1.19.7 Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

1.19.8 Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19.9 Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Services in-kind are not recognised.

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Investment costs are recognised as an expense in the period in which they ar incurred.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Employee benefits

1.23.1 Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered are not discounted.

The expected cost of compansated absences is recognised s an expense as the employee render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Summary of Significant Accounting Policies

. Employee benefits (continued)

The expected costs of surplus sharing and bonus payments is recognised as expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.23.2 Retirement benefits

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical and pension funds on their behalf and thus there are no post- employment benefits.

1.23.3 Long service awards

Provision for long services awards represents the present value of the estimated future cash outflow to be made by the municipality resulting from employee services provided up to Statement of Financial Position date. The provision comprises of amounts that the Municipality has a present obligation to pay resulting for employees services provided up to Statement of Financial Position date. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities.

The leave may wholly or partially converted into cash and or sick leave on the date on which the employees qualifies therefore or at any stages. On termination of service of an employee with ten (10) or more year's service, for reason of retirement, death, medical incapacity or retrenchment, leave shall be paid out to an employee on a pro rata basis.Any special leave accrued in this manner will become payable upon termination for whatever reason and not form part of vacation leave credit

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance. The Municipality recognises the expected cost of bonus, incentive and performance related payments when and only when: (a) it has a present legal or constructive obligation to make such payments as a result of past events, (b) a reliable estimate of the obligation can be made.

Defined contribution plans

A defined contribution plan is a post-employment pension plan under which the municipality pays fixed contributions into a separate entity (a fund). The municipality has no further payment obligations once the contributions have been paid. Accordingly, the municipality recognises the contributions to the scheme as an expense when the employees have rendered a service. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Termination benefits

Termination benefits are recognised when they accrue to employees.

Summary of Significant Accounting Policies

. Employee benefits (continued)

1.23.4 Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.24 Impairment of cash generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Summary of Significant Accounting Policies

. Impairment of cash generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.25 Value added tax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

1.27 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.28 Use of estimates

The preparation of annual annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.30 Segmental information

The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Summary of Significant Accounting Policies

. Segmental information (continued)

Where applicable segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.31 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.32 Commitments

A commitment is a contract that is non-cancelable or only cancelable at significant cost, to the extent that the amount has not been recorded elsewhere in the financial statements.
Commitments are further split into capital and operating commitments.
Capital commitments are amounts committed to acquire goods and services which are of capital in nature, i.e.; upgrading and/or construction of assets. Operating commitments are amounts committed to acquire day-to-day goods and services required to sustain municipality's business operations.
These commitments are disclosed in the notes to the annual financial statements.
Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.33 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Summary of Significant Accounting Policies

. Events after reporting date (continued)

1.34 Payables from exchange transactions

The Municipality recognises payables from exhange transactions where liabilities result in counter performance by respective parties as a result of exchange transactions.

Payables from exchange transactions are initially measured at fair value. Where the ouflow is expected to be cash or another financial asset, the payable is classified as financial liability.

The Municipality recognises in payables an amount for accruals where an estimate is made of the amounts due for goods or services that have been received or supplied, but an invoice or formal request for payment has not been received at the reporting date.

1.35 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term liquid investments that are convertible to a known amount of cash and are subject to an insignificant rist of changes in value.

Cash and cash equivalents are classified as financial instruments (refer to note 2).

Figures in Rands	2019	2018

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019	2018
Bank balances	2,827,046	158,065
Cash on hand	1,735	1,296
Short-term deposits	180,005,665	206,224,976
	182,834,446	**206,384,337**

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

Primary bank account details

Account number / description	**Bank statement balances**		**Cash book balances**	
	30 June 2019	**30 June 2018**	**30 June 2019**	**30 June 2018**
FNB- Cheque Account- 52555730913	2,724,367	1,206,542	2,827,046	158,063
Clydesdale Housing Project- FNB- 62331947418	-	9,533,872	-	-
Ext 5&6 Housing Project-FNB- 62023990907	-	470,363	-	-
Ibisi Housing Project-FNB- 62331935950	-	121,054	-	-
MIG Grant-FNB- 62123938055	11,700,612	15,851,104	11,700,613	15,851,114
MSIG-FNB- 62128055045	-	48,172	-	-
Neighbourhood Grant-FNB-62174358525	2,973,833	2,844,681	2,973,883	2,844,681
Electricity-FNB-62174363508	2,567	3,851,822	2,567	3,851,822
Riverside Housing Project Phase 1-FNB- 62023990593	-	504,718	-	-
Riverside Housing Project Phase 2-FNB- 62331950495	-	2,996,157	-	-
Ritvlei/Cly Surv Account- FNB- 62123938104	982,627	946,116	-	-
Rural Housing Project- FNB- 62331949422	-	3,797,507	-	17,423,699
32 Days Acc- FNB- 62132172355	83,768,747	44,413,234	81,352,494	44,195,631
Nedbank-7165022759	-	20,327,270	-	20,327,270
Human Settlement Housing Operating Acc- 62396633838	12,315,462	20,173,325	13,298,089	21,119,441
Small Town Dev- FNB- 62396640396	219,724	13,201,868	219,724	13,201,868
Investec Investment- 1100501690459	38,796,033	67,409,449	38,796,033	67,409,449
STD bank- 248875078001	21,373,907	-	21,373,907	-
FNB- 71803116675	10,288,356	-	10,288,356	-
Total	**185,146,235**	**207,697,254**	**182,832,712**	**206,383,038**

According to MSCOA chart version 6.1 item assets segment only allows for 10 bank accounts to be added on the system, however on the bank the accounts are separate, as such some of the Housing accounts have beeen combined together.

3. Receivables from exchange transactions

	2019	2018
Prepayments	976,940	793,466
Operating lease receivables	46,999	38,488
Consumer debtors - Refuse	678,492	721,685
Consumer debtors - Other Rentals	180,766	478,273
	1,883,197	**2,031,912**

Reconciliation of provision for impairment of trade and other receivables

	2019	2018
Opening balance	-	(33,203)
Amounts written off as uncollectible	-	33,203
	-	**-**

Refuse

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

3. Receivables from exchange transactions (continued)

Gross balance	4,614,245	3,434,851
Less: Allowance for impairment	(3,935,753)	(2,719,323)
Net balances	**678,492**	**715,528**

Gross refuse in days		
Current (0-30 days)	484,021	325,464
31-60 days	176,250	127,613
61-90 days	164,733	118,175
91-120 days	149,635	114,356
121-365 days	3,639,606	2,749,243
	4,614,245	**3,434,851**

Refuse impairment		
Current (0-30 days)	218,097	151,675
31-60 days	108,020	74,768
61-90 days	107,093	73,623
91-120 days	143,619	105,344
121-365 days	3,358,923	2,313,913
	3,935,752	**2,719,323**

Heading		
Current (0-30 days)	265,924	173,789
31-60 days	68,230	52,844
61-90 days	57,641	44,552
91-120 days	6,016	9,012
121-365 days	280,683	435,329
	678,494	**715,526**

Other rentals		
Balance	180,766	478,273

4. Receivables from non-exchange transactions

Fines	2,029,205	1,656,506
Provision for Traffic Fines	(1,740,323)	(1,425,216)
Consumer debtors - Rates	2,837,894	3,048,782
	3,126,776	**3,280,072**

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(1,425,216)	(983,416)
Provision for impairment	(405,153)	(441,800)
Amounts written off as uncollectible	90,046	-
	(1,740,323)	**(1,425,216)**

Rates		
Gross balance	4,515,284	4,191,213
Less: Allowance for impairment	(1,677,390)	(1,142,615)
Net balance	**2,837,894**	**3,048,598**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

4. Receivables from non-exchange transactions (continued)

Gross rates in days		
Current (0-30 days)	464,085	336,824
31-60 days	116,425	58,452
61-90 days	103,215	48,703
91-120 days	95,351	45,154
121-365 days	3,736,208	3,702,081
	4,515,284	**4,191,214**

Rates impairment		
Current (0-30 days)	92,959	22,268
31-60 days	43,866	11,070
61-90 days	43,866	11,070
91-120 days	85,916	39,596
121-365 days	1,410,782	1,058,610
	1,677,389	**1,142,614**

Net balance in days		
Current (0-30 days)	371,126	314,556
31-60 days	72,559	47,381
61-90 days	59,349	37,632
91-120 days	9,434	5,558
121-365 days	2,325,426	2,643,471
	2,837,894	**3,048,598**

5. VAT receivable

VAT	3,491,482	-

6. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	31,802,855	(663,546)	31,139,309	31,827,992	(633,396)	31,194,596

Reconciliation of investment property - June 2019

	Opening balance	Disposals	Depreciation	Total
Investment property	31,194,596	(25,137)	(30,150)	31,139,309

Reconciliation of investment property - June 2018

	Opening balance	Depreciation	Total
Investment property	31,224,663	(30,067)	31,194,596

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

6. Investment property (continued)

6.1 Rental Income from Investment Property

Direct income from rentals	1,268,036	1,288,801

6.2 Details of property

Property 1
Erven 229, 735 and 736
Duration : 50 years
Termination date : 18 June 2046
The Rhino centre has 10% of the net rental and 2% is payable to the municipality, which is calculated on the turnover.

- Purchase price: 1 July 1996	5,300,000	5,300,000

Property 2
Erven 231 and 232
Duration : 50 years
Termination date : 30 November 2061
Rental income is R148 620 per annum. The rental shall escalate by an amount equivalent to the CPI index every year.

- Purchase price: 1 December 2011	904,992	904,992
- Accumulated depreciation	(663,546)	(633,404)
	241,446	**271,588**

Municipal Vacant Land
Erven 152

- Purchase price: 1 July 1997	13,162,000	13,162,000
- Additions since purchase or valuation	2,461,000	2,461,000
	15,623,000	**15,623,000**

Property 4
Erven 155
Duration: 50 years
Termination: 31 December 2062
Rental income is R285 952 per annum. The rental shall escalate by an amount equivalent to CPI index every year, but this escalation shall never be less than 4% nor be greater than 8% per annum.

- Purchase price: 1 January 2013	10,000,000	10,000,000

- Land- Shopping complex	5,300,000	5,300,000
- Building- Hotel and housing	241,446	271,588
- Municipal vacant properties	15,623,000	15,623,000
- Land- Umzimkhulu mall	10,000,000	10,000,000
Total Investment property	**31,164,446**	**31,194,588**

There were no repairs and maintainance on the investement property in this financial year.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

7. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	9,409,000	-	9,409,000	9,409,000	-	9,409,000
Buildings	47,985,210	(14,703,499)	33,281,711	47,720,165	(12,986,859)	34,733,306
Infrastructure Assets	458,222,054	(256,104,442)	202,117,612	430,791,406	(221,492,192)	209,299,214
Community Assets	183,558,824	(24,191,358)	159,367,466	156,352,159	(19,783,844)	136,568,315
Other Fixed Assets	54,325,576	(23,499,589)	30,825,987	44,082,543	(20,862,212)	23,220,331
Total	**753,500,664**	**(318,498,888)**	**435,001,776**	**688,355,273**	**(275,125,107)**	**413,230,166**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - June 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Land	9,409,000	-	-	-	9,409,000
Buildings	34,733,306	274,546	1	(1,726,138)	33,281,711
Infrastructure Assets	209,299,214	27,430,649	-	(34,612,251)	202,117,612
Community Assets	136,568,315	27,497,717	(156,986)	(4,541,580)	159,367,466
Other fixed assets	23,220,331	12,712,900	(5,457)	(5,101,787)	30,825,987
	413,230,166	**67,915,812**	**(162,442)**	**(45,981,756)**	**435,001,776**

The opening balances on the above reconcilliation were restated, and the WIP Infrastructure Assets: WIP Community assets were re-classified into Infrastructure assets and Community assets respectively in accodance to GRAP.

Reconcilliation of opening balances for 2019.

Reconcilliation of opening balances	Opening balance as previously reported	Reclassification	Adjustment correction of prior period error	Re-stated opening balance
Land	10,104,000	-	(695,000)	9,409,000
Buildings	34,015,774	238,680	479,307	34,733,761
Infrastructure assets	197,254,666	11,674,212	370,335	209,299,213
Community Assets	105,869,088	30,061,003	241,345	136,171,436
Other fixed assets	23,236,502	-	(15,219)	23,221,283
WIP Infrastructure	11,674,212	(11,674,212)	-	-
WIP Community assets	30,299,683	(30,299,683)	-	-
	412,453,925	**-**	**380,768**	**412,834,693**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - June 2018

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Total
Land	9,409,000	-	-	-	-	9,409,000
Buildings	35,049,909	1,238,433	(389,032)	479,371	(1,645,375)	34,733,306
Infrastructure Assets	216,435,529	27,430,549	-	-	(34,566,864)	209,299,214
Community Assets	128,316,313	12,210,771	-	-	(3,958,769)	136,568,315
Other fixed assets	27,456,441	1,463,980	(3,884)	(479,371)	(5,216,835)	23,220,331
	416,667,192	**42,343,733**	**(392,916)**	**-**	**(45,387,843)**	**413,230,166**

Pledged as security

There are no assets pleadged as security.

Depreciation rates

Item	**Depreciation method**
Buildings	Straight line
Plant and machinery	Straight line
Furniture and fixtures	Straight line
Motor vehicles	Straight line
Office equipment	Straight line
IT equipment	Straight line
Computer software	Straight line
Infrastructure	Straight line
Community	Straight line
Other fixed assets	Straight line

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

7. Property, plant and equipment (continued)

Cumulative expenditure recognised in the carrying value of PPE

	Included within Infrastructure	**Included within Community**	**Total**
Opening balance	11,674,212	30,299,683	41,973,895
Additions/capital expenditure	27,433,979	28,349,193	55,783,172
Transferred to completed PPE items	(23,172,146)	(6,706,871)	(29,879,017)
	15,936,045	**51,942,005**	**67,878,050**

Other information

Included in property, plant and equipment are property that have been identified as taking significantly longer period of time to complete than expected, due to the following:		
WIP- Memorial hall	16,750,630	16,750,630
Umzimkhulu SMME facility	20,445,393	5,834,681
WIP- Development of landfil site	-	2,231,312
WIP- Ntlangwini access road	-	5,568,949
WIP- Ward 13 sports field	4,011,585	-
WIP- Qondeni access road	2,322,640	-
WIP- Thonjeni access road	4,845,220	-
	48,375,468	**30,385,572**

WIP Memorial Hall: This project was delayed by a number of factors:

1. Being the failure of the contractor to perform even after numerous engagement with it about its slow progress, and it eventually it was terminated.
2. After the termination of the 1st implementing agent, the municipality had to undergo the entire procurement process of inviting the bitters.
3. There were some delays caused by the Ezamafa hence this project involved the rehabilitation of the memorial hall (Heritage asset), even the building being constructed is not the Heritage asset, but was going to be linked to it.
4. Again the project was put on hold due to investigations on allegations of fraud that was conducted by public protector, and it took more than a year before the report was from Public projector and the permission to resume the project.

UMZIMKHULU SMME FACILITY: During the construction of Phase 1, the Environmental specialist advised that according to the conditions of the EIA approval, there are no works permitted to be performed in the wet land area until a Water Use Licence Authorization (WULA) has been approved. The WULA approval takes approximately six – twelve months, and community unrest (strikes in March).

WIP- Ward 13 sports field: The project suffered delays in association with Rainy weathers; Community demands for the soccer pitch to be extended and change of fence specification which had already been installed, they did not approve of it as such was removed, reordered and redone to their preferred type of fence still within budget, as a result, the due completion date was revised to 10/06/2019 following the Contractors application for extension of time, however, the target has not been met due to that the Contractor is currently out of site since 14/06/2019 to date following his appeal that the Engineer certified less earthworks quantities than what he has put in as such he is suffering cash flow challenges. The Municipality is engaging with an independent Quantity Surveyor towards settling the dispute, we are currently awaiting the appointment of a Pool of Professional Service Providers within which we will seek 3 quotations towards appointment of a Quantity Surveyor.

WIP- Qondeni access road: The project experienced unforeseen EIA delays, the first advert to appoint EIA specialists was issued 18 July 2017 ***(advert attached)*** with the intention to commence EIA in January 2018, however, none of the bidders met all the SCM requirements as such the tender was re-advertised on 30 January 2018 (***Advert attached)*** and the EIA Specialist was the appointed

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

7. Property, plant and equipment (continued)

06 June 2018 ***(Appointment letter attached)*** which gave us a 6 months delay with our targets. The EIA was authorized 19 March 2019 (***Authorization Letter attached*****),** and as a result the Contractor was granted an extension of time from 13/03/2019 to 31/05/2019 in line with his application letter, however he failed to meet the targets & has abandoned site for over 3 months hence progress remains the same as of Q3. Several meetings has been held with him, notices issued to encourage progress, commitments engaged into, but nothing seem to bear fruit. The Contractor is likely to incur penalties starting 01/06/2019.

WIP- Thonjeni access road: The project experienced unforeseen EIA delays, the first advert to appoint EIA specialists was issued 18 July 2017 ***(advert attached)*** with the intention to commence EIA in January 2018, however, none of the bidders met all the SCM requirements as such the tender was re-advertised on 30 January 2018 **(re-*advert attached)*** and the EIA Specialist was then appointed 06 June 2018 ***(Appointment letter attached)*** which gave us a 6 months delay with our targets. The EIA was authorized 25 January 2019 (***Authorization Letter attached*****).** Another contributing factor is that there is a Council resolution for additional works of 1.3km to the original scope **(*Council resolution attached)***.

As a result of all the delays incurred, the Contractor was granted extension of time up to 21 June 2019 which he still could not meet due to delays associated with the supply and delivery of pipe Culverts by Infraset whom indicted to be facing a high demand, hence the long waiting list awaiting manufacturing and delivery.

7. Property, plant and equipment (continued)

Repairs and Maintainance

Repairs and maintenance incurred to maintain property, plant and equipment is represented as follows:		
Buildings and facilities	2,335,710	2,342,495
Infrastructure	6,648,791	5,899,046
Employee costs	-	2,621,626
Repairs on the PPE	2,279,498	2,325,679
	11,263,999	**13,188,846**

There are no items of PPE that are pleadged as security
Contracted committments for PPE are shown in note36
Carrying amounts for PPE items approximate fair values

The total for this note showing Repairs and Miantenance will not be the same as the amount in the face of the statement of performance since there, the expenditure is classified according to their nature, but since we have our own plan machinery this note allows us to actually show other expenses incured in repairing and maintaining our assets.

8. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	2,061,461	(1,217,319)	844,142	2,515,170	(1,409,808)	1,105,362

Reconciliation of intangible assets - June 2019

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software	1,105,362	394,840	(9)	(656,051)	844,142

Reconciliation of intangible assets - June 2018

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	906,053	803,745	(604,436)	1,105,362

9. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets under construction/development	432,000	(177,000)	255,000	432,000	(177,000)	255,000

Reconciliation of heritage assets- June 2019

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

9. Heritage assets (continued)

	Opening balance	Total
Heritage assets under construction/development	255,000	255,000

Reconciliation of heritage assets- June 2018

	Opening balance	Total
Heritage assets under construction/development	255,000	255,000

Included in heritage assets are assets that have been identified as taking significantly longer period of time to complete than expected, due to the following:		
Heritage assets under construction/ major rennovations	255,000	255,000

The reasons for delays in WIP Memorial Hall: The construction of the Memorial hall was put on hold due to investigations on allegations that were still pending, however the municipality has not received any report from the public protector regarding this matter, and the municipality could not proceed with the project until its given a go ahead, which was only given towards the end of the financial year..

There was no repairs and maintenance expenditure incurred on Heritage assets that took place in the current financial year.

10. Payables from exchange transactions

Payments received in advanced - contract in process	557,362	448,304
Accrued leave pay	4,606,941	3,971,723
Creditors accruals	874,128	2,566,357
Deposits received	300,134	28,437
Retention	9,040,325	7,358,823
Creditors	-	160,885
Provision for Planning studies	5,034,605	-
	20,413,495	**14,534,529**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Sports Grant	7,843,328	286,060
Small Town Development Grant	-	13,312,581
MIG Grant	9,437,931	5,651,618
Development planning title deeds	696,413	-
Building plan management system	152,079	-
EDTEA Grant	100,000	-
	18,229,751	**19,250,259**

12. Unspent Agents funds

The amount of R16 603 199.80 was transferred back to the principals in the current year, and the amount of R820 501 was transfered to Housing operating account..

The details of the funds are as follows:

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

12. Unspent Agents funds (continued)

Human settlement housing capital fund	-	17,423,700
Electrification Fund	-	5,253,010
	-	**22,676,710**

Human Settlement Housing Capital fund		
Opening balance	17,423,701	17,475,578
Transfer in/out	(820,501)	(872,349)
Current-year interest	-	820,472
Transfer back to Human settlement	(16,603,200)	-
	-	**17,423,701**

Electrification Fund		
Opening balance	5,253,010	4,301,630
Current-year receipts	15,000,000	19,000,000
Conditions met	(20,253,010)	(18,048,620)
	-	**5,253,010**

13. VAT payable

Tax refunds payables	-	1,235,306

14. Employee benefit obligations

Long service awards

Current service cost	2,207,227	1,799,498
Past service cost	301,866	235,247
Interest cost	215,850	171,357
Actuarial (gains) losses	(108,204)	81,828
Expected return on plan assets	(283,755)	(80,703)
	2,332,984	**2,207,227**

Employees who achieve 5 years of service are granted 5 days paid leave, whilst employees who achieve 10 years of service are granted 10 days paid leave. Employees who achieve 15 years of service are granted 20 days paid leave. Employees who achieve 20 years of service are granted 30 days paid leave. Employees who achieve 20/25/30/35/40 and 45 years of service are granted 30 days paid leave. The abovementioned leave is only applicable to those employees who achieve the stated years of services after the effective date of these conditions. The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2019. It has been assumed that the staff turnover will be insignificant based on historical data. A discount rate of 7.45% (2018 : 9.36%) was used on internal rate of return.

Key assumptions used

The financial and demographic assumptions used in the valuation are as follows:

Discount rates used	7.45 %	9.36 %
Expected rate of return on reimbursement rights	4.04 %	6.43 %
Expected increase in salaries	5.04 %	7.43 %
Proportion of employees opting for early retirement	2.29 %	1.80 %

The mortality rate of an individual is assumed to be 85-90.

The normal retirement age is assumed to be 65 years.

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

15. Provisions

Reconciliation of provisions - June 2019

	Opening Balance	Additions	Total
Landfill site provision	3,021,121	1,181,742	4,202,863

Reconciliation of provisions - June 2018

	Opening Balance	Additions	Total
Landfill site provision	2,320,670	700,451	3,021,121

Landfill site

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life which is 1 year and has been discounted to reflect its present value.
The discounting rate used is 6.75%.
The Department of Environmental affairs has granted a licence for clossure of Mankofu dumpsite, and they have also funded the construction of the new dumpsite that is currently being constructed.

16. Housing operating account

Human Settlement Housing Development Fund

	2019	2018
Opening balance	21,119,441	19,215,795
Transfer in/out	1,204,625	872,349
Current year interest	1,262,380	1,031,297
	23,586,446	**21,119,441**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

17. Accumulated surplus

Reconciliation of accumulated surplus- June 2019

	Opening balance	Surplus for the year	Prior period adjustments	Total
Opening balance	573,496,383	16,314,206	-	589,810,589

Reconciliation of accumulated surplus- June 2018

	Opening balance	Adjustments during the year	Surplus for the year	Total
Opening balance	551,151,766	(671,676)	23,016,293	573,496,383

18. Interest received - investment

	2019	2018
Interest revenue		
Bank	14,016,481	13,233,980

19. Investment Property Rentals

	2019	2018
Premises		
Facilities and Buildings	474,910	463,151
Rentals on Municipal Land	793,126	825,650
	1,268,036	**1,288,801**

20. Service charges

	2019	2018
Solid waste	127,304	110,579
Waste disposal	793,034	813,025
Refuse removal	1,890,606	1,787,689
	2,810,944	**2,711,293**

21. Other revenue

	2019	2018
Tender income	203,899	197,847
Clearance certificates	3,286	1,608
Refund income	10,563	525,298
Cemetry fees	8,452	13,055
Hall fees	78,197	88,497
Seta fund	169,775	129,872
Business tarrifs	-	78,596
PDA applications for land usage	10,357	2,628
Advertising income	71,689	55,329
Building plans and servitudes	83,654	90,072
PDA application for MAP	4,261	8,110
Library fees	82,651	98,083
Proceeds on Disposals	75,336	15,696
Over banking	602	17
Refuse bags	522	-
	803,244	**1,304,708**

22. Agency services

	2019	2018
Vehicle registration	592,485	571,356

Figures in Rands	2019	2018

23. Property rates

Rates raised

	2019	2018
Residential	1,552,885	836,017
Commercial	4,149,001	3,597,577
State	4,410,800	7,571,561
Farmers	254,763	40,105
Less: rebates	(3,066,248)	(3,278,097)
	7,301,201	**8,767,163**

Valuations

	2019	2018
Residential	342,143,800	215,837,000
Commercial	270,101,000	239,975,000
State	2,100,000	669,681,000
Municipal	170,614,000	131,032,500
Small holdings and agriculture	235,526,190	582,579,000
Industrial	3,179,000	2,687,000
Place of worship	12,854,000	10,715,000
Agriculture	764,552,500	-
Public service infrastructure	12,778,000	9,183,000
Communal property	2,365,780	51,000
Vacant land	19,851,200	-
Public service purposes	689,662,900	-
	2,525,728,370	**1,861,740,500**

Description	Number of properties	Tariffs
Agriculture	460	0.0022
Agricultural smallholding	256	0.0022
Commercial	64	0.0135
Communal properties	4	0.0021
Industrial	2	0.0022
Municipal	780	0,0088
Public service infrastructure	82	0.0088
Residential	2,592	0.0088
Public service purpose	190	0.0021
Vacant land	592	0.017, 0.022
State owned	2	0.0088
Place of worship	13	0.0088
	5,037	

As per the amended MPRA valuations on land and buildings are performed every 5 years. The new general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy.

Old age pensioners were granted 100% subsidy as categorised as indigents and pensioners over 65 years were granted 25% rebate as per Council’s approved Rates policy.State properties were granted a 10% rebate and Public Service infrastructures were granted 30% rebate as per Council’s approved policy. Rates are levied monthly in 12 equal instalments payable on a monthly basis. Interest is charged at 15.5% on the outstanding balance of service charges, 60% rebate granted for commercial properties as per Council approval.

Figures in Rands	2019	2018

24. Government grants and subsidies

Operating grants		
Equitable share	169,032,000	160,817,000
FMG Grant	1,900,000	1,900,000
Maintainance Grant- sports facility	50,000	-
Arts and Culture- Library	1,617,000	1,325,000
Expanded Public Works Program	2,324,000	1,923,000
	174,923,000	**165,965,000**
Capital grants		
Small town development	13,312,581	5,829,515
MIG Grant	38,749,688	38,443,382
Sports Grant	292,232	603,440
Building plans management system	347,921	-
	52,702,422	**44,876,337**
	227,625,422	**210,841,337**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Expanded Public Works Programme

Current-year receipts	2,324,000	1,923,000
Conditions met - transferred to revenue	(2,324,000)	(1,923,000)
	-	-

The purpose of this grant is to promote sound financial management.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None..

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

24. Government grants and subsidies (continued)

Finance Management Grant

Current-year receipts	1,900,000	1,900,000
Conditions met - transferred to revenue	(1,900,000)	(1,900,000)
	-	-

The purpose of this grant is to reduce peverty and unemployemnt.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Arts and Culture Grant

Current-year receipts	1,617,000	1,325,000
Conditions met - transferred to revenue	(1,617,000)	(1,325,000)
	-	-

The purpose of this grant is to fund the salaries for the Librarians.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Municipal Infrastructure Grant

Balance unspent at beginning of year	5,651,618	-
Current-year receipts	42,536,000	44,095,000
Conditions met - transferred to revenue	(38,749,688)	(38,443,382)
	9,437,930	**5,651,618**

The purpose for this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : There were delays with 3 MIG projects one for Ntlangwini access road was caused by an unusual water flow sequence was discovered on site whereby water flows heavily horizontally rather than the normal perpendicular sequence onto the road. The technical team and Management of the Municipality conducted several meetings and site visits to discuss possible solutions to the situation. On 3/05/2018 the Contractor was issued a formal instruction through the project Engineer to suspend the works in terms of clause 5.11 of the General Condition of Contract 2010. there were delays again in the construction of traffic offices, Contract between the Municipality and the Contractor was terminated due to Contractor failing to comply with his contractual obligations following several attempts by the Municipality and the Engineer to provide the necessary support..

Small Town Development Grant

Balance unspent at beginning of year	13,312,581	19,142,095
Conditions met - transferred to revenue	(13,312,581)	(5,829,514)
	-	**13,312,581**

Figures in Rands	2019	2018

24. Government grants and subsidies (continued)

The grant was fully spent accoding to its conditions
The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant :

Sports Grant

Balance unspent at beginning of year	286,060	-
Current-year receipts	7,849,500	889,500
Conditions met - transferred to revenue	(292,232)	(603,440)
	7,843,328	**286,060**

Conditions still to be met - remain liabilities (see note 11).

Building plan management system grant

Current-year receipts	500,000	-
Conditions met - transferred to revenue	(347,921)	-
	152,079	**-**

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

Maintainance Grant- sports facility

Current-year receipts	50,000	-
Conditions met - transferred to revenue	(50,000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

EDTEA Grant

Current-year receipts	100,000	-

Conditions still to be met - remain liabilities (see note 11).

The Grant was only received by the municipality in March, and was not even budgeted for.

Human settlement Grant

Current-year receipts	696,413	-

Conditions still to be met - remain liabilities (see note 11).

The Grant was only received by the municipality in March, and was not even budgeted for.

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

25. Revenue

Service charges	2,810,944	2,711,293
Rental of facilities and equipment	1,268,036	1,288,801
Interest received (trading)	395,572	279,630
Agency services	592,485	571,356
Licences and permits	67,350	-
Other revenue	803,244	1,304,708
Interest received - investment	14,016,481	13,233,980
Property rates	7,301,201	8,767,163
Government grants & subsidies	227,625,422	210,841,337
Public contributions and donations	26,087	4,348
Fines, Penalties and Forfeits	841,705	694,958
Learners and licences	656,584	546,938
	256,405,111	**240,244,512**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	2,810,944	2,711,293
Rental of facilities and equipment	1,268,036	1,288,801
Interest received (trading)	395,572	279,630
Agency services	592,485	571,356
Licences and permits	67,350	-
Other Revenue	803,244	1,304,708
Interest received - investment	14,016,481	13,233,980
	19,954,112	**19,389,768**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	7,301,201	8,767,163
Transfer revenue		
Government grants & subsidies	227,625,422	210,841,337
Public contributions and donations	26,087	4,348
Fines, Penalties and Forfeits	841,705	694,958
Learners and licences	656,584	546,938
	236,450,999	**220,854,744**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

26. Employee related costs

Basic	59,241,225	53,066,266
Bonus	4,129,144	3,689,350
Medical aid - company contributions	4,187,482	4,252,297
UIF	441,223	390,379
Leave pay provision charge	179,316	74,894
Leave encashment	2,418,234	3,486,127
Shift and danger allowance	1,219,255	1,024,031
Bargaining council	19,803	17,482
Pension fund- municipal contributions	7,157,534	5,183,204
Travel, motor car, accommodation, subsistence and other allowances	6,111,025	4,287,564
Overtime payments	2,713,383	2,293,971
Acting allowances	220,235	200,532
Housing benefits and allowances	1,787,214	1,565,785
Actuarial gain/loss	(108,204)	81,828
Cellphone expenses	751,372	716,864
Added responsibility	507,000	361,500
	90,975,241	**80,692,074**

Remuneration of Municipal Manager

Annual remuneration	778,376	745,623
Bonus Contract	113,191	103,655
Back pay	28,298	14,972
Trevel allowance	324,323	310,676
Contribution to UIF, Medical and pansion funds	194,592	186,406
Cellphone allowance	27,000	24,741
Subsistance allowance	11,939	20,553
Leave encashment	47,639	47,639
	1,525,358	**1,454,265**

Remuneration of Chief Finance Officer

Annual remuneration	653,957	626,440
Bonus Contract	95,098	90,570
Back pay	23,775	12,579
Trevel allowance	270,626	238,374
Contribution to UIF, Medical and pansion funds	78,496	89,626
Cellphone allowance	27,000	24,741
Subsistance allowance	42,586	21,993
Housing allowance	78,496	89,626
Leave encashment	40,024	40,024
	1,310,058	**1,233,973**

Remuneration of Infrastructure and Engineering Manager

Annual remuneration	610,775	520,350
Bonus Contract	88,819	81,336
Back pay	38,020	11,297
Trevel allowance	254,489	236,582
Contribution to UIF, Medical and pansion funds	101,794	94,633
Cellphone allowance	27,000	24,741
Subsistance allowance	20,133	24,507
Housing allowance	50,897	47,039
Leave encashment	-	35,944
	1,191,927	**1,076,429**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

26. Employee related costs (continued)

Remuneration of Corporate Services Manager

Annual remuneration	193,611	573,918
Bonus Contract	-	79,785
Back pay	-	11,524
Trevel allowance	96,806	275,435
Contribution to UIF, Medical and pansion funds	32,268	107,177
Cellphone allowance	9,000	24,741
Subsistance allowance	7,445	35,122
Leave encashment	-	36,669
	339,130	**1,144,371**

Remuneration of Community and Social Services Manager

Annual remuneration	599,128	507,165
Bonus Contract	87,125	79,785
Back pay	17,425	11,081
Trevel allowance	249,637	211,319
Contribution to UIF, Medical and pansion funds	149,780	115,710
Cellphone allowance	27,000	24,741
Subsistance allowance	13,794	22,739
Leave encashment	-	128,340
	1,143,889	**1,100,880**

Remuneration of Strategic Planning and Development Manager Heading

Annual remuneration	653,227	507,165
Bonus Contract	94,992	79,785
Back pay	23,748	11,081
Trevel allowance	272,178	211,319
Contribution to UIF, Medical and pansion funds	163,306	115,710
Cellphone allowance	27,000	24,710
Subsistance allowance	14,903	22,739
Leave encashment	39,980	128,340
	1,289,334	**1,100,849**

27. Remuneration of Councillors

Mayor	809,177	773,804
Deputy Mayor	647,341	619,044
Executive members	1,890,906	1,883,295
Chief Whip	606,883	580,354
Councillors' basic allowance	5,384,736	5,688,543
Councillors' travel allowance	1,808,551	1,629,998
Councillors' pension fund contribution	1,157,398	1,094,783
Councillors' medical aid contribution	121,635	89,860
Councillors' cellphone allowances	1,570,800	2,167,927
	13,997,427	**14,527,608**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

27. Remuneration of Councillors (continued)

Ward committee expenses

Councillors' basic allowance no longer include the ward committee expenses they have been reclassified according to MSCOA into general services.

In-kind-benefits:

The Mayor has a full time secretary and a driver.

The Deputy Mayor has a full time secretary (sharing the same secretary with the Mayor).

The Speaker's office has a full time secretary.

Number of employees:

The number of Councillors is 42 and 245 employees as at 30 June 2019 (June 2018 : 217).

28. Debt impairment

Traffic fines	405,153	441,800
Rates and refuse	2,833,494	3,116,353
	3,238,647	**3,558,153**

Contributions to debt impairment relates to increase in bad debt provision made to traffic fines, and rates and refuse.

29. Depreciation and amortisation

Property, plant and equipment	45,981,756	46,055,473
Investment property	30,150	30,067
Intangible assets	656,051	604,086
	46,667,957	**46,689,626**

30. Finance costs

Landfill site provision	1,181,742	700,450
Actuarial interest	517,716	406,604
	1,699,458	**1,107,054**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

31. General expenses

External Audit fees	1,777,605	1,549,561
Advertising	2,056,788	1,613,320
Bank charges	55,116	124,350
Cassuals	1,197,982	612,740
Electricity	5,546,672	3,852,061
Entertainment	-	8,510
Equipment hire	280,546	474,175
Insurance	976,862	1,333,325
IT expenses	4,319,672	1,944,882
Skills development fund	877,815	779,146
Artists and performers	1,088,550	-
Motor vehicle expenses	312,740	204,754
Materials and supplies	924,216	1,220,779
Fuel and oil	2,373,262	2,227,400
Postage and courier	36,759	8,726
Printing and stationery	1,638,278	1,886,050
Subscriptions and membership fees	772,876	844,831
Telephone and fax	2,783,042	2,548,303
Transport	700,050	1,010,570
Subsistance and travelling	9,207,579	6,367,823
Assets expensed	511,719	113,914
Water	231,958	156,098
Uniforms	821,907	899,098
Street cleaning services	-	811,956
Other operating and administrative expenses	-	295,008
Workman's compansation	357,052	25,516
Ward committee stipent	2,747,000	2,734,500
Servitutes and land survey	3,385,350	3,256,900
Loss on scrapping of assets	-	392,626
Achievements and Awards	510,886	322,600
Workshops and Events	809,612	490,422
Travel Agency and Visa	262,210	79,325
Learnershiops and Internships	234,000	178,000
Bursaries (Employees)	655,722	845,635
Archieves	23,553	25,484
	47,477,379	**39,238,388**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

32. Contracted services

Consultants fees	4,266,176	4,864,753
Security services	8,332,666	8,040,018
Catering services	2,919,280	2,916,505
Repairs and maintenance	11,490,472	10,746,153
Audio and visuals	583,200	372,900
Litter picking and street cleaning	327,412	-
Accounting and auditing	662,085	1,134,828
Legal advice and litigation	1,158,579	480,069
LIMA LED Partnership	546,000	546,000
Subject Matter Training	764,973	640,754
Administrative and support staff	207,100	545,415
Animal care	58,585	46,130
Burial services	38,110	109,770
Occupational Health and Safety	302,182	15,952
Business and advisory	184,905	370,723
Qualification verification	30,125	65,810
Feasibility studies	4,346,442	-
	36,218,292	**30,895,780**

The contracted services that were previously reported in 2018 were reclassified.

33. Operating surplus

Operating surplus for the year is stated after accounting for the following:0

Operating lease charges		
Equipment		
• Contractual amounts	392,057	383,765
Amortisation on intangible assets	656,051	604,086
Depreciation on property, plant and equipment	45,981,756	46,055,473
Depreciation on investment property	30,150	30,067
Employee costs	104,972,668	95,219,682

34. Cash generated from operations

Surplus	16,314,206	23,016,293
Adjustments for:		
Depreciation and amortisation	46,667,957	46,689,626
Debt impairment	3,238,647	3,558,153
Movements in operating lease assets and accruals	196,077	-
Movements in retirement benefit assets and liabilities	(70,320)	407,729
Movements in provisions	1,181,742	700,451
Other non-cash items	(7,159,641)	385,117
Gain on provisions	-	(249,254)
Changes in working capital:		
Receivables from exchange transactions	148,715	192,492
Receivables from non-exchange transactions	153,296	(1,177,667)
Payables from exchange transactions	5,878,976	(1,697,314)
VAT	(3,491,482)	1,148,793
Unspent conditional grants and receipts	(1,020,508)	108,164
	62,037,665	**73,082,583**

Figures in Rands	2019	2018

35. Contingent liabilities

Legal claims

Various claims submitted to the municipality are in the process of being resolved.
Should the respective claimants be successful with their claims, the estimated Municipal liability on such claims, is disclosed below'.

Legal disputes relate to:

Invasion of municipal land and illegal structures	125,000	75,000
Municipal investigations and employees disputes	100,000	155,000
Contractual dispute	20,000	20,000
Breach of contract	3,000	3,000
Oustanding settlements	20,000	45,000
Opposing action for damages	80,000	50,000
	348,000	**348,000**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

36. Commitments

36.1 Authorised capital expenditure

Authorised and contracted		
• Buildings	8,568,849	8,568,849
• Community assets	4,816,715	24,742,527
• Infrastructure assets	5,274,439	33,273,508
• Intangible assets	146,579	-
	18,806,582	**66,584,884**
Total capital commitments		
Already contracted for but not provided for	18,806,582	66,584,884

The amounts of commitments include VAT

36.2 Operating leases - as lessee (expense)

At the reporting date the Municipality has outstanding commitments under operating leases which fall due as follows:

Minimum lease payments due		
- within one year	25,056	275,617

8 Photocopy Machines (Nashua): The municipality then entered into new lease agreement of 8 machines that started on 1st of June 2016, and the monthly rental is payable at the end of each month over the period of 36 months.

36.3 Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	1,829,741	1,427,080
- in second to fifth year inclusive	3,994,474	3,046,091
- later than five years	19,008,611	19,172,115
	24,832,826	**23,645,286**

The municipality leased vacant land to a property developers whom has developed uMzimkhulu Mall, Rhino Centre and Umzimkhulu Hotel. The lease agreement has a term of 50 years. The rental shall escalate by an amount equivalent to the the CPI index, rounded of to the nearest rand, which the escalation will be effective on the commencement date every year. The Rhino centre has 10% of the nett rental plus 2%payable to the municipality, which is calculated on the turnover of each site. Rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

Umzimkhulu Mall and Hotel commitments have been calculated and will not perform the smoothing on a straight-line over the period of the lease.

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

37. Risk management

37.1 Financial risk management

The Municipality has exposure to the following risks from its use of financial instruments:

Liquidity Risk
Interest Rate Risk
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Municipal Manager have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

The Municipal Manager is of the opinion that the values reflected in the financial statements are a true reflection of fair values of both the financial assets and liabilities.

The fair value of consumer debtors is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

Financial Assets		
Petty cash	1,735	1,296
Bank balances	2,827,046	158,064
Short-term deposits	180,005,665	206,224,976
Receivables from exchange transactions	1,883,197	2,031,912
Receivables from non-exchange transactions	3,126,776	3,280,072
	187,844,419	**211,696,320**

Financial Liabilities		
Payables from exchange transactions	20,413,495	14,534,529
unspent conditional grants	18,229,751	19,250,259
unspent agent funds	-	22,676,710
	38,643,246	**56,461,498**

37.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Payables from exchange transactions	20,413,495	14,534,529

Figures in Rands	2019	2018

37. Risk management (continued)

37.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

Balances exposed to the interest rate risk:		
Bank balances	2,827,046	158,064
Short-term deposits	180,005,665	206,224,976
	182,832,711	**206,383,040**

37.4 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2019**	**2018**
Receivables from exchange transactions	2,581,670	2,425,014
Receivables from non-exchange transactions	3,126,776	3,279,889
Receivable from exchange past due not impaired	914,451	1,140,575
Receivable from non-exchange past due not impaired(government debt included)	2,738,401	2,957,638
	8,446,847	5,704,903

38. Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure	-	7,767

There was no fruitless and wasteful expenditure in the current financial year..

39. Irregular Expenditure

Opening balance	13,662,257	10,929,959
Add: irregular expenditure- current year	10,951,900	2,732,298
add: irregular expenditure- proir years discovered this year	18,370,327	-
less: amount written-off by Council	(19,269,159)	-
Closing balance	**23,715,325**	**13,662,257**

Notes to the Annual Financial Statements

Figures in Rands	2019	2018

39. Irregular Expenditure (continued)

Irregular expenditure of R10 418 675 (2019: **R7 809 577** , and 2018: **R2 609 098**) The bid documentation for procurement of commodities designated for local production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulations 8(2), this irregularity was only realised last year in November during the audit, however these documents were already appointed, some were on the evaluation phase. this was then reported to the MPAC and it did its investigation and recommended that the council should write-off this irregular expenditure.

Irregular expenditure of R3 142 323 relates to payments made to suppliers that were appointed while their tax matters were not in order, the Non-Compliance notification letters were issued to service providers, how ever the municipality could not wait 10 days before appointing them, but the municipality thought that the notification for them to fix their tax status could go concurrently with the 14 days waiting period for apeals, however the appointment letter was supposed to only be issued after they sorted their tax matters as per circular 90.

Prior year Irregular Expenditure :
Irregualr expenditure of R16 370 995 the municipality did not comply with the provisions of section 217 of the Constitutionof the Republic of South Africa. The municipality appointed a contractor through competitive bidding, that was once sub-contracted by the previous impementing agent, and this contractor did not declare the conflict of interest on the MBD4.

The opening balance irregular of R11 053 159: the municipality was using a standard price for catering, and the selection of service providers was randomly selected by the financial system out of all the caterers in the municipal data base, and the system was free of any manipulation, however according to the SCM regulations the municipality should have sourced out 3 quotations, and it was written-off by the council, and was also reported to Treasury.

40. Unauthorised Expenditure

There was no unauthorised expenditure in the current financial year, and there was nothing in the prior year as well.

41. Additional disclosures in terms of the Municipal Finance Management Act

Contributions to organised local government

	2019	2018
Current year subscription / fee	767,716	826,457
Amount paid - current year	(767,716)	(826,457)
	-	-

Audit fees

	2019	2018
Current external audit fees	1,777,605	1,557,328
Amount paid - current year	(1,777,605)	(1,557,328)
	-	-

PAYE and UIF

	2019	2018
Current year fee	14,861,979	13,658,447
Amount paid - current year	(14,861,979)	(13,658,447)
	-	-

VAT

	2019	2018
VAT receivable	3,491,482	-
VAT payable	-	1,175,775
	3,491,482	**1,175,775**

All VAT returns have been submitted by the due date throughout the year.

Figures in Rands	2019	2018

42. Related parties

Related party balances

Councillors- in arrears more than 90 days

No councillors were in arrears at the end of the current financial year

	2019	2018
Section 57 employees		
Remuneration paid	7,076,250	7,110,767
Councillors		
Remuneration paid	13,997,427	14,527,608
Councillors lease rentals		
Cllr MB Mpabanga	-	2,050
Employee lease rentals		
N. Tyekela	15,715	14,938
K. Dweba	15,715	14,938
Mr Maphumulo	2,549	2,512
Mr Sosibo	2,549	2,512
Mr Sikhosana	2,549	2,512
Mr Mncwabe	2,549	2,512

43. Awards to companies with close family members of persons in the service of the state

Supplier name	Director's name	Director's name	person in the service of state	Position of Employee	awarded amount
Abroad Success JV Tower City Trading	Andile Mbalo(Husband)	Perfect Mbalo(Child)	Kholeka Mbalo	Community and Social Services Manager (Umzimkhulu Municipality)	1,830,895
Hlombe projects	Salani Wilson Sithole		was working for Department of Social Development Eastern Cape until Jan 2019		5,875
					1,836,770

These awards were made following normal competitive processes.

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The municipality procured services of assessors for senior managers (Manager BTO and manager Housing and planning) prior to their appointments and the process followed in procuring these services deviated from the provisions of paragraph 12(1)(d)(i), since only 2 service providers responded, and this amounted to **R14 574.74** (R7 287.37 each). The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations

45. Events after the reporting date

There were no material or adjusting events that took place after the reporting date.

46. Prior period errors

Property, Plant and Equipment

For some **transport assets** there was an error where an incorrect remaining useful lives were used in the calculation of depreciation in the prior years which resulted in an incorrect depreciation for transport assets.

The effect of this error is as follows:

Accumulated depreciation: Transport assets decreases by R462 483 and accumulated surplus increases by R291165 and depreciation for 2018 decreases by R171 318.

For some **community assets** depreciation was incorrectly calculated in the previous financial year.

The effect of the errors are as follows:

Accumulated depreciation: community assets decreases by R241 344 and Depreciation for 2018 decreases by R241 344.

For some **infrastructure assets** some amounts were not included on the amount that was capitalised but these amounts relates to the project. Also there was an amount that was incorrectly not included in the cost of some infrastructure asset but the work relating to that project was performed in 2017/18 period.

The effect of these errors are as follows:

Cost: Infrastructure assets increases by R 772 741.07

Accumulated depreciation: Infrastructure assets increases by R 5727.77

Depreciation for 2018 increases by R 5727.77

Land amounting to R695 000 was incorrectly included in land under PPE and this relates to the properties that were transferred to the owners in the previous financial years.

Construction of an operational building was incorrectly included in community assets. The effect of the correction of this error is the decrease in community assets and an increase in buildings by R238 680. Both community assets and buildings are reported under PPE.

These errors led to an increase of R 776 241 on the previous year PPE carrying amount as disclosed on the statement of financial position and an decrease of R698 298 in depreciation as disclosed in the statement of financial performance.

46. Prior period errors (continued)

Receivables from exchange transactions

Prepayments were incorrectly not reduced in the previous year as they should as maintenance contract is being utilised

The effect of an error is as follows:

Prepayments R399 259.68

Maintenance contract expense increases by R155 503 for 2018
Accumulated surplus decreases by R243 756

Debtors for recoveries were previously understated by R6 341.12 and other income was also understated by R6 341.13

These errors led to a decrease of R392 918.55 receivables from exchange transactions, an increase of R399 259 to contracted services and an increase of R6 341.13 to other income

VAT payable

As a result of the amount for infrastructure assets that was incorrectly not accrued even though the work was performed in 2017/18 financial year, VAT payable also decreases by R59 531.75 as the supplier who performed the work is a VAT vendor.

This error led to a decrease of R59 532 in the VAT payable.

Payables from exchange transactions

As a result of the amount for infrastructure assets that was incorrectly not accrued even though the work was performed in 2017/18 financial year, accruals increased by R456 410.10

There was an error in the expenditure incurred for fuel for June 2018. The expenditure was incorrectly not accrued.

The effect of these errors are as follows:

Accruals increased by R 738 467.10

General expenses increases by R282 057

The salaries were overstated with an amount of R612 740 relating to Casuals, and the General expenses were under stated with the same amount.

These errors led to an increase of R738 467 on the payables from exchange transactions

The impact of the foregoing errors is as follows:

Figures in Rands	2019	2018

46. Prior period errors (continued)

Statement of financial position		
Cost: Infrastructure assets	-	772,741
Accumulated depreciation: Infrastructure	-	(5,728)
Cost: Land	-	(695,000)
Accumulated depreciation: Community assets	-	241,344
Accumulated depreciation: Trasport assets	-	462,483
Accumulated surplus	-	671,676
Cost: Buildings	-	238,680
Cost: Community assets	-	(238,680)
Receivables from exchange transactions	-	(392,919)
VAT payable	-	59,531
Payables from exchange transactions	-	(738,647)
Statement of Financial Performance		
Depreciation expense	-	(406,936)
Contracted services	-	155,503
Other income	-	(6,341)
General expenses	-	612,740
Employee costs	-	(612,740)
General expense	-	282,056

47. Budget differences

Material differences between budget and actual amounts

Budget vs Actual Variance Explanations for 2018/2019

The budget is approved on an accrual basis nature of classification. The approved budget covers the period of 01 July 2018 to 30 June 2019
Material variances on final budget compared to actuals.

Variance Explanations

Revenue

Property Rates - There are properties that were identified after preparing adjustment budget that they belong to state own properties, valuated on Agriculture category.

There are accounts that were considered when preparing adjustment budget calculations and were linked to property rates as from May 2019 after investigation conducted e.g account 3810.

The municipality was not considered business rebate properly on budget calculations this result to have more rebate that reduce our property rates billing.

Service Charge - Consist of consumer waste disposal billing estimated as per contracts terms and also estimation of revenue received as per dumping tariffs therefore difference it depends on revenue received as per usage by consumers.

Rental of facilities and equipment - Consumer rental billing estimated as per contracts terms, there’re new contracts at gateway and at van rank, also there is item depends on usage by consumers such as Hall.

Interest earned - external investments – There was an investments matured in the month of April 2019 (Investec and Nedbank) which was not anticipated as the banks use compound interest.

Transfer recognised operation – Operational Grants received by the municipality, were as per Division Revenue of Bill for 2018-2019 financial and the transfer that were not recognised is Donations received.

47. Budget differences (continued)

Transfer recognised capital – Capital grants received by the municipality, were as per Division Revenue of Bill for 2018-2019 financial. The municipality recognised 78% on Municipal Infrastructure grant and 4% recognised on Sport Facility grant. The municipality will apply for the roll over on the funds that were unspent during the financial year.

Other Own revenue – A realisation of 15% increase on other revenue is due to item segment that the municipality depends on the usage such as Library Copy fees, PDA Applications for land usage, Building plans and Servitudes, Cemetery Fees and Issue Of Clearance Certificates.

Operating Expenditure

Employee costs – The savings realised on the employee cost is due to employee retirement, terminated employee and resignation.

Remuneration of councillors – The savings realised on remuneration of councillors is due to vacant posts which was filled in May 2019 and those post was accommodated in the adjustment budget.

Debt Impairment – This is due to write off processed during the financial year.

Depreciation & asset impairment – There were assets that have been written-off due to their malfunctioning and some assets have reached their useful lives, this has resulted depreciation to decrease as it was estimated on the adjustment budget.

Other materials – The municipality does advertise for stationary but the tender kept going to re-advertisement. Service providers could not be secured.

Shooting training was only conducted once because of unavailability of VIP Protection (Bodyguards) to due commitments of their Principals.

Contracted services – The budget was allocated to promote local artists, with regards to launching their CDs. The office did not receive sufficient requests this past year.

The disability sports day was hosted by the Disabled People of South Africa in Durban. The municipality did not incurred the costs.

Disaster relief is procured as per need, hence the budget was not fully used.

Electricity Provision - The municipality budgeted for new connections at the new landfill site, application had been submitted to Eskom during the third quarter of 2019 financial year and still waiting for the quotation.

Catering services was budgeted for site hand overs of project with Leadership an stakeholders, the target projects for completion experienced delays due to EIA issues.

Greening and Landscaping project had some delays due to amendment of the initial business plan, the Project Implementation will be done in 2019/2020

Light Industrial Incubator - Due to the highly technical nature of the project there had to be extensive consultations in the drafting of the terms of reference which delayed the process.

Formalisation of Mankofu - The service providers have been appointed, however, the Department of Human Settlements has not yet approved the pre-feasibility studies as yet to make payments to the service providers.

Township Establishments -Project has been delayed due to land issues (DRDLR)

Urban Agriculture - There were delays in the transfer of ownership of land from Rural Development to the Municipality.

Repairs and Maintenance

47. Budget differences (continued)

Ntsikeni Sport field - From the initial the project supposed to be completed in 4 months due to the community delivery protest (strike) the project was implementation late (24 April 2019) and it will be completed by the 24 July 2019.

HIRA and Awareness - The HIRA was Re-advertised three times because of the non- compliance on SCM requirements. The project will continue on the 2019/2020 financial year.

The maintenance of the refuse site is done in-house and there were no major condition based repairs done this financial year.

Other repairs and maintenance were not implemented during the financial year due to non-responsive bidders.

Transfers and subsidies – Rural Housing - The service providers have been appointed, however, the Department of Human Settlements has not yet approved the pre-feasibility studies as yet to make payments to the service providers.

Other expenditure – The municipality planned to procure medals for district marathon but the district was already procured the medals.

The municipality mostly used community halls and thus, did not spend much on the hire charges.

The disability unit used the municipal bus to transport people with disability to disability events.

Network Extensions the municipal do budget as a provisional budget in case we need network related items, therefore we make requests as and when network accessories are needed.

Capital Expenditure

On Municipal Infrastructure grant there were three project that were not fully spent their budget for 2018/2019. These project are Thonjeni Access Road, Qondeni gravel Access road and Phase 3 Construction of Ward 13 Sports field. The reason for low expenditure is as follows:

The Municipality incurred unforeseen delays in relation to the Environmental Impact Assessment process (Procurement of specialists and implementation), which affected 2 of the 3 MIG projects (Qondeni and Thonjeni Access Roads).

Construction of Ward 13 Sports field -The UMzimkhulu area experienced continuous heavy rains which affected the project largely that some item such as earthworks, trenches, building works suffered damages as such the Contractor had to re-do them.

During the month of March 2019 which was the planned completion period for most of the projects, the municipality experienced various community protests and political unrest which resulted to two weeks of poor productivity due to cancellation of scheduled meetings, Service Providers and Officials on and off site

The municipality could not fully spend the Sports Facility grant due to the poor communication between the municipality and the community, during that period there was a community strike which led to the community refusing for the project to proceed in their land

The municipality will request rollover for these projects.

Internal Generated fund

Notes to the Annual Financial Statements

Figures in Rands

47. Budget differences (continued)

The municipality advertise for the computers and laptops through the tender process. The advert kept going to re-advertisement.

The process of procuring additional firearms for the VIP Protection took longer than expected, hence the budget was not used.

Nyanisweni Low Level Bridge - ward 02 and Dumanomuu Low Level Bridge - ward 6 - This projects was delayed due to appeals by the contractors to the municipality and the projects did not commence in 2019 financial year.

Machinery and Equipment - The municipality was using competitive bidding, due to introduction of transversal tender the municipality decided to procure these assets in 2020 financial year using National Treasury Transversal tender.

48. New standards and interpretations

48.1 Standards and interpretations issued, but not yet effective and those effective but not yet adopted

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	No impact as municiplaity has no municipal entities
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	No impact as the municipality is not an agent for the Department of Housing
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

48. New standards and interpretations (continued)

• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact

49. Compliance with the Municipal Finance Management Act and other Laws and Regulations

The municipality complied with all the requirements of the MFMA as required. There were no instances of material non-complienace identified during the period under reporting, except for the items disclosed in note 39 (irregular expenditure) and note 44 (deviations).

50. Significant losses incurred during the financial year

Municipality did not insur any significant losses during the financial year; except those disclosed on the Note 28 for impairment and write-off receivables.